



• **Board of Directors**

***Real Property and Asset Management Committee***

11/10/2015 Board Meeting

**CONFIDENTIAL 8-8**

**Subject**

Authorize General Manager to enter into an agreement to purchase or to acquire an option to purchase property from Delta Wetlands Properties located in Contra Costa, San Joaquin, and Solano Counties [Conference with real property negotiators; Property is approximately 20,369.80 acres, identified as Contra Costa County Assessor's Parcel Nos. 026-060-003-6, 026-060-007-7, 026-060-008-5, 026-060-015-0, 026-060-016-8, 026-060-017-6, 026-060-018-4, 026-060-019-2, 026-070-001-8, 026-070-006-7, 026-070-010-9, 026-070-011-7, 026-070-012-5, 026-070-013-3, 026-080-004-0, 026-080-005-7, 026-080-006-5, 026-080-007-3, 026-080-008-1, 026-080-009-9, 023-040-026-9, 023-040-027-7, 023-050-001-9, 023-050-002-7, 023-070-011-4, 023-070-012-2, 023-080-010-4, 023-080-011-2, 023-090-001-1, 023-090-003-7, 023-090-004-5, 023-100-001-9, 023-100-002-7, 023-100-004-3, 023-100-007-6, 023-100-008-4; San Joaquin County Assessor's Parcel Nos. 129-050-01, 129-050-02, 129-050-03, 129-050-04, 129-050-05, 129-050-06, 129-050-07, 129-050-08, 129-050-09, 129-050-11, 129-050-12, 129-050-13, 129-050-14, 129-050-15, 129-050-16, 129-050-17, 129-050-18, 129-050-19, 129-050-24, 129-050-25, 129-050-26, 129-050-27, 129-050-28, 129-050-52, 129-050-54, 129-050-55, 129-050-56, 129-050-60, 69-030-08, 069-030-09, 069-030-10, 069-030-11, 069-030-19, 069-030-20, 069-030-21, 069-030-22, 069-030-23, 069-030-24, 069-030-26, 069-030-27, 069-030-28, 069-030-29, 069-030-30, 069-030-31, 069-030-32, 069-030-33, 069-030-34, 069-030-35, 069-030-36, 069-030-37, 069-030-38, 069-030-39, 069-030-42, 069-030-44, 069-100-01, 069-100-02, 069-100-03, 069-100-04, 069-100-05, 069-100-08, 069-100-09, 069-100-10, 069-100-11; and Solano County Assessor's Parcel No. 0090-060-010; agency negotiators: Jeff Kightlinger, Stephen Arakawa, John Clairday, and Bryan Otake; negotiating parties: Metropolitan and Delta Wetlands Properties; under negotiation: price and terms; to be heard in closed session pursuant to Gov. Code Section 54956.8]

**Executive Summary**

The Metropolitan Water District of Southern California (Metropolitan) has been in discussions with Delta Wetlands Properties (Delta Wetlands) for potential purchase of approximately 20,369.80 acres of land in San Joaquin, Contra Costa, and Solano counties for a total purchase price of \$191 million. (Attachment 1) This action seeks authority for the General Manager to enter into either an Option-to-Purchase Agreement or go directly to a Purchase and Sale Agreement. If authorization for an Option-to-Purchase Agreement is given, an appropriation to cover the option fee for an initial six-month period, plus costs to perform preliminary due diligence, totaling \$10.5 million is requested. (Attachment 2) The option fee would be applicable to the purchase price should Metropolitan complete the purchase. Staff would seek additional Board authority prior to exercising or extending the option.

**Details**

**Background**

Delta Wetlands Properties (Delta Wetlands) is an Illinois General Partnership owned by Zurich American Corporation (formerly Kemper) a Delaware corporation, and a subsidiary of Zurich Insurance Group a Swiss insurance company. Delta Wetlands owns four islands in the Sacramento-San Joaquin Bay-Delta that were purchased in the mid-1980s. The four islands are Bacon Island and Bouldin Island in San Joaquin County, and Holland Tract and Webb Tract in Contra Costa County. Subsequently, Delta Wetlands Properties acquired a small portion of Chipps Island for tidal marsh habitat restoration.

Soon after the purchase of the islands, Delta Wetlands began working on a proposal to divert and store unappropriated winter flows from the Delta on all four islands and to manage them as wildlife habitat at other times during the year. In 1993, after the first draft environmental impact report was released, the project description was revised to store winter flows on two islands (Webb Tract and Bacon Island) with Bouldin Island, Holland Tract, and a small portion of Chipps Island focused on habitat restoration. To address issues raised during public reviews and consultations with cooperating agencies (including effects on fish, wildlife, levee stability, seepage on adjacent islands, and water quality) several restrictions were incorporated into project operations when a final EIR was approved in 2001.

## PRIVILEGED AND/OR WORK PRODUCT

In 2001, the State Water Resources Control Board issued water rights permits for the project. However, in 2004, the State Board set aside their Decision 1643 issuing water rights permits when the Third District Court of Appeal published a decision requiring that the "actual, intended" buyers of the water, and not the potential users be identified in amended water right applications before the State Water Board can issue revised permits.

In 2008, Delta Wetlands began working with the Semitropic Water Storage District on a Place of Use Environmental Impact Report. That EIR was finalized in 2011. The EIR analyzes the integration of the project into the operation of the Semitropic Groundwater Storage Bank and the Antelope Valley Water Bank, and for later uses by Semitropic, Golden State Water Company, and Metropolitan Water District. Although Metropolitan Water District was identified as a potential buyer of the water, staff was not involved in the development of the environmental documents nor was there any agreement between Metropolitan and Semitropic.

### Potential Benefits

The following is a summary of potential benefits that can be derived from ownership of Webb Tract, Holland Tract, Bouldin Island, Bacon Island, and a portion of Chipps Island from Delta Wetlands. Not all of these benefits could be achieved simultaneously and one benefit may limit another. Most of the potential benefits would require additional study, environmental review, and various permits before they could be implemented.

1. *Water Transfers.* The islands could be used to develop a water transfer program based on crops shifting or periodic fallowing. Delta Wetlands recently leased Bouldin Island to Semitropic Water Storage District in an effort to begin development of a water transfer program.
2. *Flood Storage & Salinity-Outflow Enhancement.* Two of the Delta Wetland islands have been proposed by Delta Wetlands to be used to divert and store surplus flood flows. Delta Wetlands has developed environmental documents and entered into numerous agreements with local agencies and effected parties regarding impacts associated with water quality, seepage, levee improvements, and other issues associated with the proposed project. The proposed benefits of this project could include the release of stored flood waters to help meet Delta outflow requirements during lower flow periods, reduce the salinity in the South Delta, and enhance yield of the state and federal projects.



3. *Waterfowl Habitat Preserve.* The Delta Wetlands islands could be used to create non-tidal wetlands or permanent cultivated lands preservation to provide significant waterfowl habitat to meet the California WaterFix mitigation requirements.
4. *Emergency Freshwater Pathway and Supply Security Enhancement.* Two of the Delta Wetlands islands and their levees are part of the Emergency Freshwater Pathway in the central and south Delta. Ownership of the islands could allow for better access to and control over those levees.
5. *Carbon Credit Development.* The Delta Wetlands islands could be used to generate carbon credits through the creation of a Tule marsh and rebuilding of the peat soils. Peat soil restoration would have the added benefit of increasing island elevation and reducing the water supply consequences of island flooding.
6. *Fish Food Supplies Enhancement.* The Delta Wetlands islands (particularly Webb Tract) could be used to grow zooplankton desired by Delta smelt and other species of concern. The zooplankton could be released into the channels on the ebb tide so they would be drawn toward the confluence area. Further scientific analyses would need to be taken to analyze this enhancement.
7. *Turbidity Management and Reduction in Fish Take.* Preliminary scientific analysis has indicated that if portions of Bacon Island were permanently opened to Delta water, it could serve as a turbidity trap and a corresponding reduction in fish take at the state and federal project export facilities. Additional modeling could determine whether the reduction in turbidity would significantly reduce regulatory constraints on Old and Middle River flows during the winter.
8. *Access to Properties Necessary for Construction of the California WaterFix.* The California WaterFix conveyance tunnels would pass directly beneath Bouldin Island and Webb Tract. Ownership of these islands could expedite construction of the conveyance facilities. The islands would be used for contractor staging areas, access or retrieval shafts, access roads, storage sites for reusable tunnel materials, barge unloading facilities, and other construction activities.
9. *Access to Geotechnical Data and Environmental Assessments for the California WaterFix.* Ownership of these Delta Wetlands properties would allow access to geotechnical information, environmental assessments, and other areas essential for expedited activities that would reduce construction costs.
10. *Access to Mitigation Lands for the California WaterFix.* Ownership of these Delta Wetlands properties would allow access to properties needed for mitigation of construction and permanent facility impacts of the California WaterFix.
11. *Regulatory Fine Tuning.* Currently, control of Delta outflow can only come from upstream reservoir releases or from changes in Delta export pumping. For this reason, project operators can only assure compliance with Delta outflow standards by over complying. A water storage facility within the Delta would allow operators to operate more closely to regulatory standards, using releases from and diversions to Delta islands to fine tune compliance with standards.

PRIVILEGED AND/OR WORK PRODUCT

Valuation Issues

Metropolitan has recently been approached by Delta Wetlands Properties with an offer to sell its real property holdings in the Sacramento-San Joaquin River Delta comprised of approximately 20,369.80 acres of land and associated improvements in the counties of San Joaquin, Contra Costa, and Solano. The offered properties include Bouldin and Bacon Islands, Webb Tract, 70-percent of Holland Tract; and a portion of Chipps Island (the Property). Metropolitan and Delta Wetlands have tentatively agreed, subject to Board approval, to terms that would grant Metropolitan the right to purchase Delta Wetlands holdings in the Delta for a total purchase price of \$191 million or \$9,376.63 per acre. The American Society of Farm Managers and Rural Appraisers' 2015 *Trends in Agricultural Land and Lease Values Report* (Trends Report) indicates agricultural land values in the Delta region range are from \$7,000 to \$12,000 per acre. Staff identified the comparable sales data used in the Trends Report. Further, staff independently confirmed these and two additional sales through public records and a local real estate appraiser. (Attachment 3)

The value of land also depends on the types of crops grown and the quality of the soil. According to Delta Wetlands, their holdings consist of more than 18,000 acres of farmable land. Their lands are leased on a short-term basis and are used to grow a variety of crops, predominantly in corn, alfalfa, rice, wheat, and tomatoes. Bouldin Island and Webb Tract are currently leased to Semitropic Water Storage District (Semitropic), which in turn subleases to farmers. Delta Wetlands leases Bacon Island and Holland Tract directly to farmers. According to the Trends Report, farmland rents are in the range of \$200-300 per acre. Their levee management assessments are approximately \$1.18 million annually.

Terms of Option-To-Purchase Agreement

Under the terms proposed, Metropolitan would acquire, upon the payment of a \$10 million option fee, an exclusive option to purchase the Property for a period of six months at a purchase price of \$191 million. At the end of six months, Metropolitan would be able to extend the option for an additional \$5 million. The \$15 million would all apply to the purchase price if the option to purchase were exercised. Metropolitan would be joined in the purchase in a partnership with three San Joaquin Valley water districts, all members of the Kern County Water Agency, a state water project contractor. The partners are: Semitropic Water Storage District, Rosedale-Rio Bravo Water Storage District and Wheeler Ridge-Maricopa Water Storage District (Kern Agencies). The Kern Agencies propose to share 50/50 in the cost and benefits of the purchase with Metropolitan. If direction is given to proceed with purchase of the property, Metropolitan and the Kern Agencies would enter into a contractual relationship delineating the parties respective responsibilities and benefits. Specific details of the transaction include:

- Upon execution of an Option-to-Purchase agreement (Option Agreement) Metropolitan, on behalf of the buyers, would deposit \$10 million into an escrow account as an option fee for an initial six-month exclusive right to purchase the Property. Delta Wetlands would immediately receive \$1.4 million as compensation for the one-year lease of Webb Tract and Bouldin Island. The \$1.4 million would apply to the purchase price but would be non-refundable.
- Metropolitan would have a 60-day period to review title records and inspect the property. With the release of the remaining option fee, Metropolitan would have until six months after execution of the Option Agreement to exercise its option to purchase the Delta Wetlands properties.
- The Option Agreement provides Metropolitan with a right to make an additional \$5 million deposit into escrow to extend the option period by six months. The additional \$5 million will be released to Delta Wetlands immediately and would be non-refundable but also applicable to the purchase price.
- Delta Wetlands would have the right to terminate the option at six months but would have to return \$8.6 million of the initial \$10 million option payment to Metropolitan.



Staff recommends that the General Manager be authorized to enter into an Option Agreement with the terms described above and requests an appropriation to cover the initial option fee, plus costs to perform preliminary due diligence, totaling \$10.5 million.

## Policy

---

Metropolitan Water District Administrative Code:

§8201: Acquisition of Real Property

## California Environmental Quality Act (CEQA)

---

CEQA determination for Option #1:

The proposed action to enter an option-to-purchase agreement, making payments for the option, and take other actions associated with Metropolitan's costs for the acquisition and assessment of real property is not subject to CEQA because it involves government fiscal activities, which do not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment (Section 15378 (b)(4) of the state CEQA Guidelines).

The CEQA determination is: Determine that the proposed action to enter an option to purchase property is not subject to CEQA (Section 15378(b)(4) of the State CEQA Guidelines).

CEQA determination for Option #2:

The proposed action to enter into a purchase and sale agreement, making payments for the property purchase, and take other actions associated with Metropolitan's costs for the acquisition and assessment of real property is not subject to CEQA because it involves government fiscal activities, which do not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment (Section 15378 (b)(4) of the state CEQA Guidelines). The proposed action is also exempt under the provisions of CEQA and the State CEQA Guidelines because the proposed transfer of ownership of interest in land does not include any activity or change in the existing uses of the property that may cause a significant effect on the environment (Section 15061(b)(3) of the state CEQA Guidelines). Furthermore, acquisition of the property will preserve the current open space, habitat or historical resources and will allow restoration of natural conditions including plant or animal habitats. Accordingly, the proposed action qualifies under Class 25 Categorical Exemption (Section 15325 of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is exempt from CEQA and is otherwise not subject to CEQA under the general rule that CEQA applies only to projects with the potential for causing significant effects pursuant to Sections 15325 and 15061(b)(3) of the State CEQA Guidelines. In addition, the fiscal aspect of the proposed action is not subject to CEQA pursuant to Section 15378(b)(4) of the State CEQA Guidelines.

CEQA determination for Option #3:

None required.

## Board Options

---

### Option #1

Adopt the CEQA determination and

a. Appropriate \$10.5 million dollars; and

Authorize the General Manager to enter into the conditional option agreement with Delta Wetlands Properties and a partnership agreement with the Kern Agencies

**Fiscal Impact:** up to \$10.5 million dollars

**Business Analysis:** This action advances continued focus on Delta solutions that will help ensure a greater degree of reliability for State Water Project supplies.

**Option #2**

Adopt the CEQA determination and

a. Appropriate \$192.5 million; and

Authorize the General Manager to proceed with an outright purchase of the Delta Wetlands Properties and a partnership agreement with the Kern Agencies

**Fiscal Impact:** up to \$192.5 million dollars

**Business Analysis:** This action advances continued focus on Delta solutions that will help ensure a greater degree of reliability for State Water Project supplies.

**Option #3**

Do not authorize the General Manager to enter into the conditional option agreement.

**Fiscal Impact:** unknown

**Business Analysis:** Would be limited in pursuing all actions related to the properties that could provide greater degree of reliability for State Water Project supplies.

**Staff Recommendation**

---

Option # 1

/s/ John Clairday

11/5/2015

*John Clairday*

*Date*

*Manger, Real Property Development and  
Management*

/s/ Jeffrey Kightlinger

11/5/2015

*Jeffrey Kightlinger*

*Date*

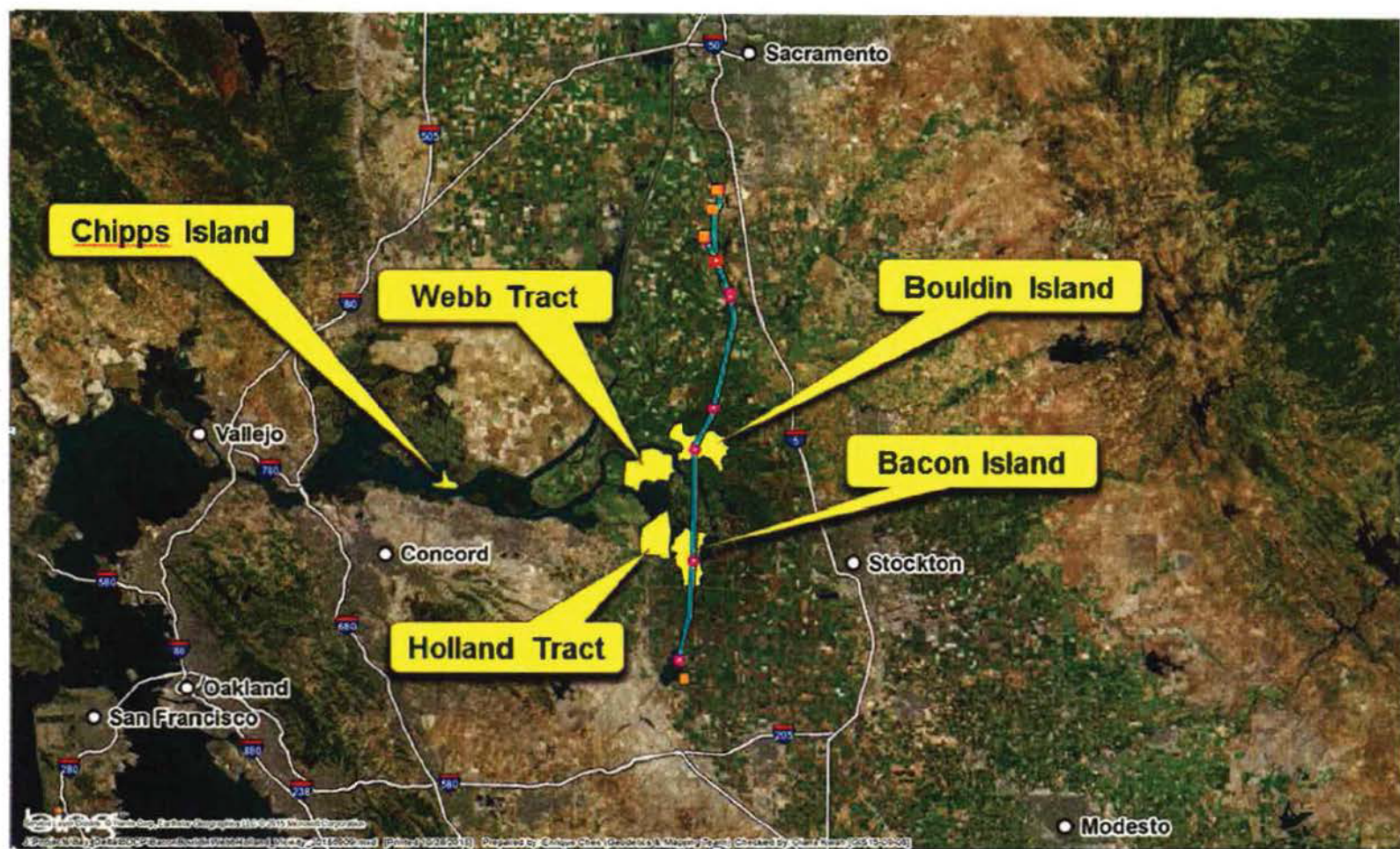
*General Manager*

**Attachment 1 – Location Map**

**Attachment 2 – Acquisition Budget**

**Attachment 3 – Comprable Sales Map**





## BACON ISLAND



OWNER NAMES:	Delta Wetlands Properties Delta Wetlands Properties Ptp
COUNTY:	San Joaquin
APNS:	129-050-01, 129-050-02, 129-050-03, 129-050-04, 129-050-05, 129-050-06, 129-050-07, 129-050-08, 129-050-09, 129-050-11, 129-050-12, 129-050-13, 129-050-14, 129-050-15, 129-050-16, 129-050-17, 129-050-18, 129-050-19, 129-050-24, 129-050-25, 129-050-26, 129-050-27, 129-050-28, 129-050-52, 129-050-54, 129-050-55, 129-050-56, 129-050-60
LAND USES:	AGRICULTURAL
TOTAL LOT ACRES:	5,603.17± acres
PLANTED ACRES:	4,860± acres  Wheat – 11.9% Corn – 39.4% Alfalfa – 36.8% Oats – 4.3% Sunflower – 7.7%



## BOULDIN ISLAND



**OWNER NAME:** Delta Wetlands Properties

**COUNTY:** San Joaquin

**APNS:** 069-030-08, 069-030-09, 069-030-10, 069-030-11, 069-030-19, 069-030-20, 069-030-21, 069-030-22, 069-030-23, 069-030-24, 069-030-26, 069-030-27, 069-030-28, 069-030-29, 069-030-30, 069-030-31, 069-030-32, 069-030-33, 069-030-34, 069-030-35, 069-030-36, 069-030-37, 069-030-38, 069-030-39, 069-030-42, 069-030-44, 069-100-01, 069-100-02, 069-100-03, 069-100-04, 069-100-05, 069-100-08, 069-100-09, 069-100-10, 069-100-11

**LAND USES:** AGRICULTURAL

**TOTAL LOT ACRES:** 6,018.77± acres

**PLANTED ACRES:** 4,933± acres

Corn – 81.1%  
Rice – 12.6%  
Tomatoes – 6.2 %

**HOLLAND TRACT (portion)**



OWNER NAMES:	Delta Wetlands Properties
COUNTY:	Contra Costa
APNS:	023-040-026-9, 023-040-027-7, 023-050-001-9, 023-050-002-7, 023-070-011-4, 023-070-012-2, 023-080-010-4, 023-080-011-2, 023-090-001-1, 023-090-003-7, 023-090-004-5, 023-100-001-9, 023-100-002-7, 023-100-004-3, 023-100-007-6, 023-100-008-4
LAND USES:	AGRICULTURAL; VACANT; RECREATIONAL
TOTAL LOT ACRES:	3,007± of 4,256± acres
PLANTED ACRES:	3,020± acres
	Pasture – 100%



## WEBB TRACT



**OWNER NAMES:** Delta Wetlands Properties

**COUNTY:** Contra Costa

**APNS:** 026-060-003-6, 026-060-007-7, 026-060-008-5,  
026-060-015-0, 026-060-016-8, 026-060-017-6,  
026-060-018-4, 026-060-019-2, 026-070-001-8,  
026-070-006-7, 026-070-010-9, 026-070-011-7,  
026-070-012-5, 026-070-013-3, 026-080-004-0,  
026-080-005-7, 026-080-006-5, 026-080-007-3,  
026-080-008-1, 026-080-009-9

**LAND USES:** AGRICULTURAL

**TOTAL LOT ACRES:** 5,497.86± acres

**PLANTED ACRES:** 4,064± acres  
Corn – 100%

**CHIPPS ISLAND (portion)**



<b>OWNER NAME:</b>	Delta Wetlands Properties
<b>COUNTY:</b>	Solano
<b>APNS:</b>	0090-060-010
<b>LAND USES:</b>	Miscellaneous
<b>TOTAL LOT ACRES:</b>	243± acres
<b>PERCENT IMPROVED:</b>	0%



**Delta Wetlands Land Acquisition Budget (Option Agreement)**

Breakdown of this action is as follows:

	<b>Board Action No. 1 (Nov 2015)</b>
Labor (Studies and Property Investigations)	\$ 350,000
Real Property Research	
Title Review/Coordination	
Land Descriptions/Exhibit Maps	
Phase 1 Site Assessments Coordination	
Feasibility Analysis	
Professional/Technical (P&T)	\$ 125,000
Title Company (Escrow & Title)	
Environmental Site Assessment Consultant	
Remaining Budget	\$ 25,000
Option Cost	\$ 10,000,000
Total	<u>\$ 10,500,000</u>

**Funding Request**

<b>Program Name:</b>	Delta Wetlands Land Acquisition		
<b>Source of Funds:</b>	TBD		
<b>Appropriation No.:</b>	XXXXXX	<b>Board Action No.:</b>	1
<b>Requested Amount:</b>	\$ 10,500,000	<b>Capital Program No.:</b>	N/A
<b>Total Appropriated Amount:</b>	\$ 10,500,000	<b>Capital Program Page No.:</b>	N/A

**Delta Wetlands Land Acquisition Budget (Purchase Agreement)**

Breakdown of this action is as follows:

	<b>Board Action No. 1 (Nov 2015)</b>
Labor (Studies and Property Investigations)	\$ 700,000
Real Property Research	
Title Review/Coordination	
Land Descriptions/Exhibit Maps	
Phase 1 Site Assessments Coordination	
Feasibility Analysis	
Professional/Technical (P&T)	\$ 750,000
Title Company (Escrow & Title)	
Environmental Site Assessment Consultant	
Remaining Budget	\$ 50,000
Option Cost	\$ 191,000,000
Total	<u>\$ 192,500,000</u>

**Funding Request**

<b>Program Name:</b>	Delta Wetlands Land Acquisition		
<b>Source of Funds:</b>	TBD		
<b>Appropriation No.:</b>	XXXXX	<b>Board Action No.:</b>	1
<b>Requested Amount:</b>	\$ 10,500,000	<b>Capital Program No.:</b>	N/A
<b>Total Appropriated Amount:</b>	\$ 10,500,000	<b>Capital Program Page No.:</b>	N/A



### SALES COMPARABLES

	Property Identification	APN	County	Zoning	Sale Date	Acres	Sale Price	Price/Acre
1	4 miles west of Stockton	131-080-12	San Joaquin	Agricultural	1/10/2014	211.99	\$1,500,000	\$7,076
2	Approx. 12 miles SW of Stockton	189-250-07	San Joaquin	Agricultural	1/31/2014	471.00	\$4,003,500	\$8,500
3	7 miles NW of Stockton	069-080-03	San Joaquin	Agricultural	10/9/2014	215.00	\$1,900,000	\$8,837
4	13238 State Highway 160, Walnut Grove	142-0060-034	Sacramento	Agricultural	6/9/2015	90.11	\$810,000	\$8,989
Subject	Delta Wetlands Properties	Various APNs in San Joaquin, Contra Costa, and Solano Counties	Various	Agricultural	N/A	20,369.80	\$191,000,000	\$9,377
5	8119 Jacobs Road, 5 miles west of Stockton	131-080-11, 131-200-05	San Joaquin	Agricultural	5/1/2014	287.58	\$2,875,800	\$10,000
6	1489 W. Undine Road, Tracy	191-180-02	San Joaquin	Agricultural	5/21/2015	427.59	\$5,250,000	\$12,278

